

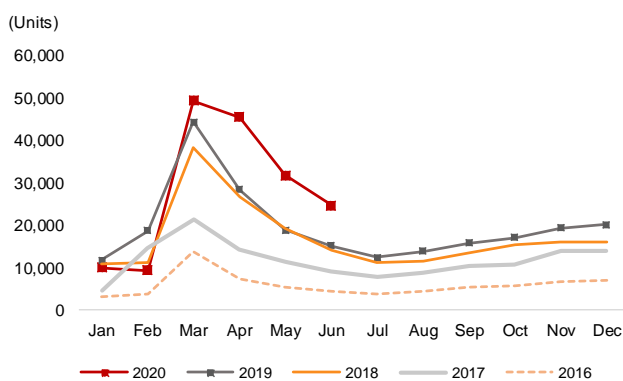
China Construction Machinery & HDT Sector

Excavator sales +63% YoY in Jun; Momentum to continue in Jul & Aug

Sales volume of excavators by major producers in Jun surged 63% YoY, which is in line with expectations. We expect the momentum in Jul & Aug to continue, driven by resilient order intakes for upstream components and a low base effect. **Jiangsu Hengli (601100 CH, BUY, TP: RMB62.84)**'s production plan in Jul (~50k units of excavator hydraulic cylinders) suggests resilient downstream demand over the coming months. Besides, we expect the allocation of the new round of special bond quota will continue to underpin the demand for construction machinery. Potential improvement in property sales will offer additional upside to our estimate. Reiterate **BUY** on **Jiangsu Hengli** and **SANY Heavy (600031 CH, TP: RMB24.7)**.

- **Strong momentum of excavator sales in Jun.** According to CCMA, sales volume of excavator by 25 major producers in Jun surged 63% YoY to 24.6k units. Sales volume in China surged 75% YoY to 21.7k units, while export volume increased by 8% YoY to 2.9k units. In 1H20, sales volume increased 24% YoY to 170k units, representing 60% of our full year estimates (Run rate in 1H19: 58%).
- **Excavator utilization hours +4% YoY in Jun.** Utilization hours reached 141 in Jun (+4% YoY), a slight improvement from 1% in May, despite the impact of floods in Southern China. Key provinces such as Shandong and Hebei reported 17% and 52% increase in utilization hours respectively. Overall speaking, the increase in utilization indicates resilient construction activities and implies strong upcoming demand for excavator going forward.
- **Wheel loader sales +18% YoY in Jun.** Sales volume of wheel loaders by 23 major producers in Jun grew 18% YoY to 13.6k units. Sales volume in China increased by 33% YoY to 11.4k units, while export volume declined 33% YoY to 1.7k units. In 1H20, sales volume slightly increased 0.4% YoY to 66.8k units, representing 54% of our full year estimates, same as the run rate in 6M19.

China excavator monthly sales volume



Source: CCMA, CMBIS

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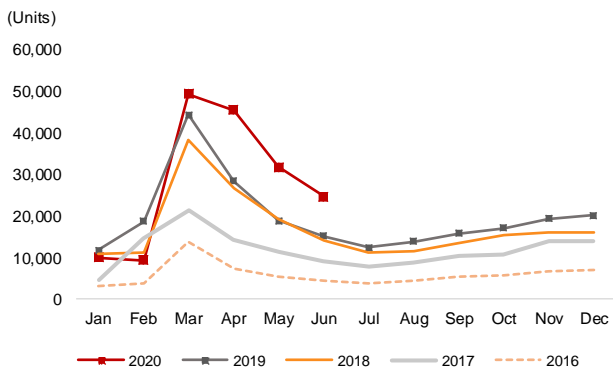
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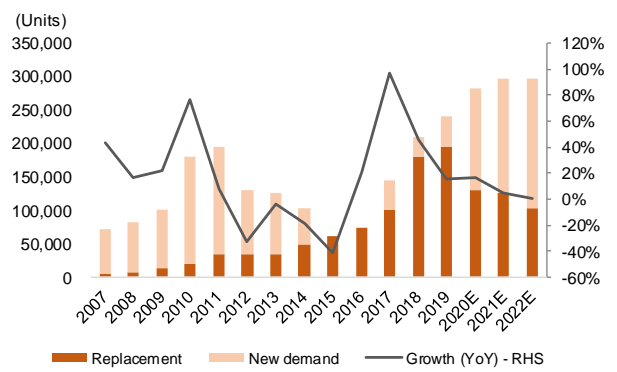
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Figure 1: China monthly excavator sales



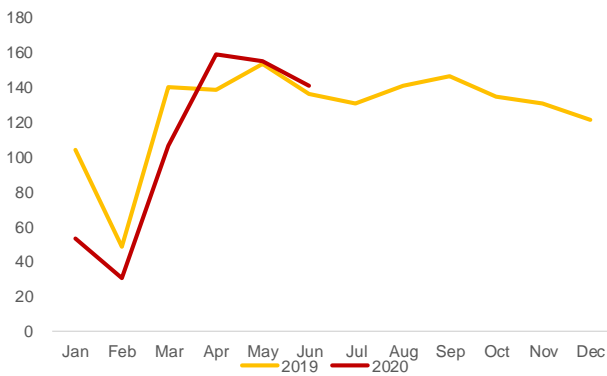
Source: CCMA, CMBIS

Figure 2: CMBIS excavator sales projection



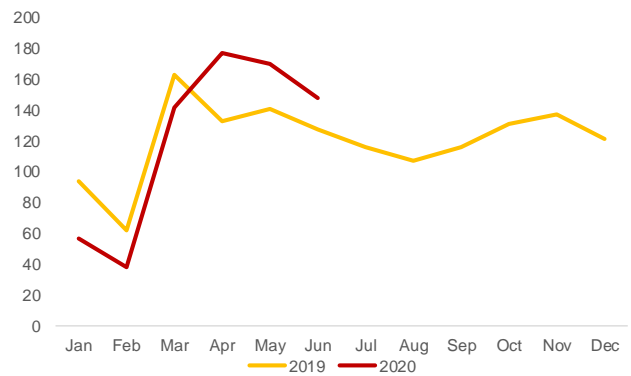
Source: CCMA, CMBIS estimates

Figure 3: Excavator utilisation hours (China)



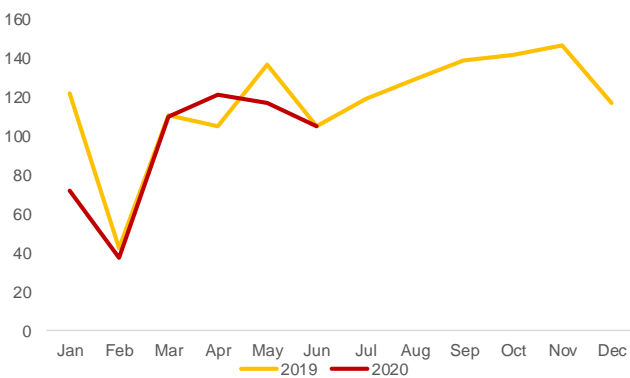
Source: CCMA, CMBIS

Figure 4: Excavator utilisation hours (Shandong)



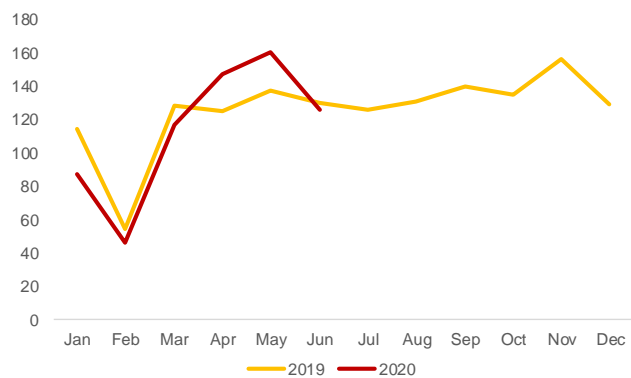
Source: CCMA, CMBIS

Figure 5: Excavator utilisation hours (Guangdong)



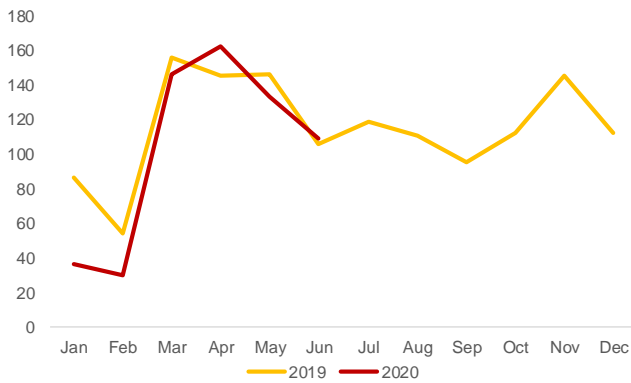
Source: CCMA, CMBIS

Figure 6: Excavator utilisation hours (Guangxi)



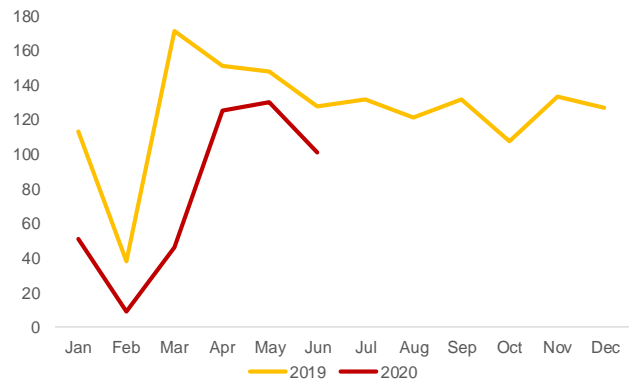
Source: CCMA, CMBIS

Figure 7: Excavator utilisation hours (Henan)



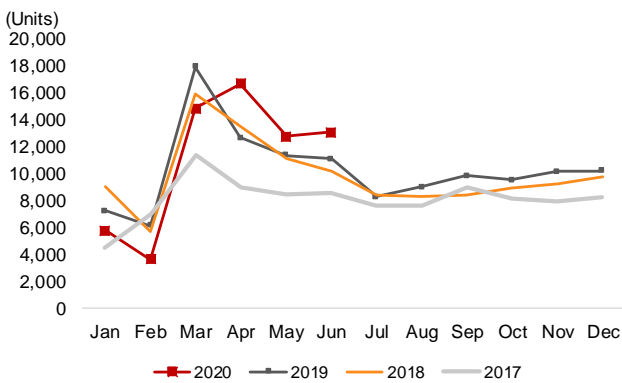
Source: CCMA, CMBIS

Figure 8: Excavator utilisation hours (Hubei)



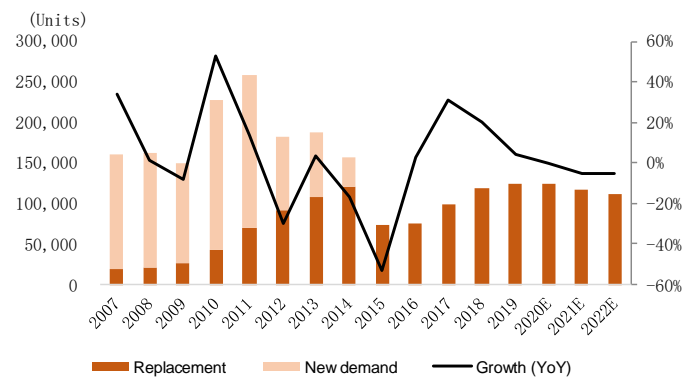
Source: CCMA, CMBIS

Figure 9: China monthly wheel loader sales



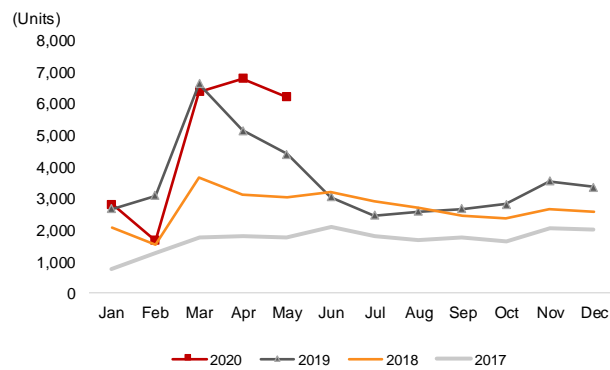
Source: CCMA, CMBIS

Figure 10: CMBIS wheel loader projection



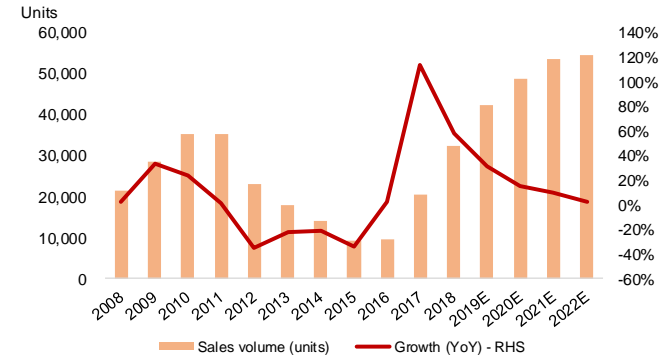
Source: CCMA, CMBIS estimates

Figure 11: China monthly truck crane sales



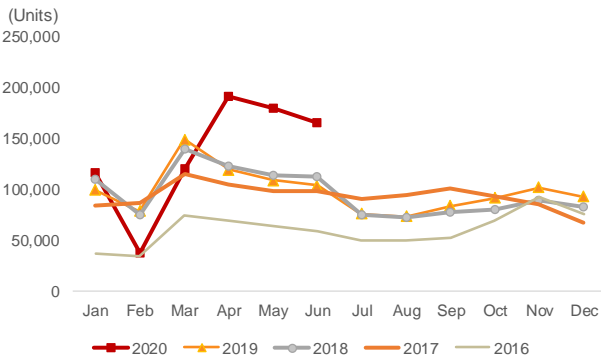
Source: CCMA, CMBIS

Figure 12: CMBIS truck crane sales projection



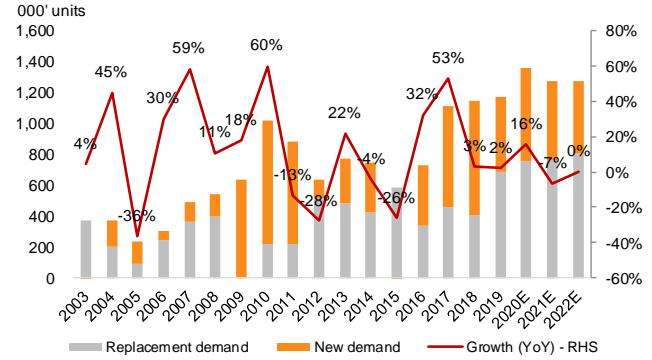
Source: CCMA, CMBIS estimates

Figure 13: China monthly HDT sales



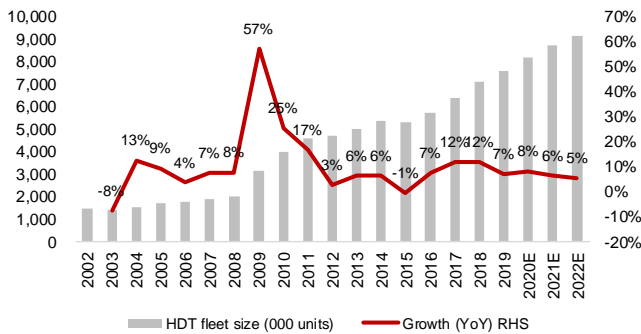
Source: Cvworl, CMBIS

Figure 14: CMBIS HDT sales projection



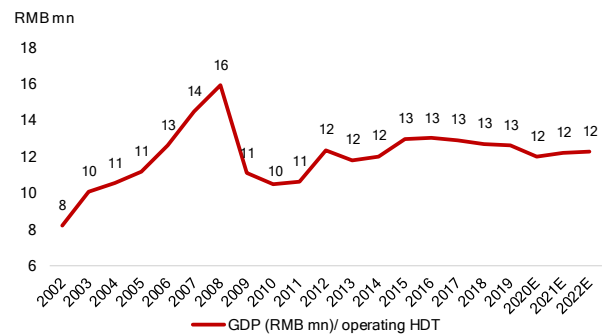
Source: Cvworl, Wind, CMBIS estimates

Figure 15: China HDT fleet size



Source: Wind, CMBIS estimates

Figure 16: GDP per unit of operating HDT



Source: Wind, CMBIS estimates

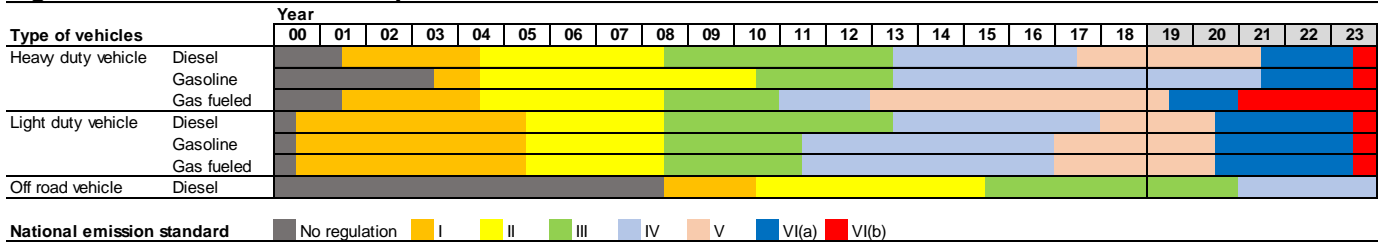
Figure 17: HDT sales in China by company

	2019												2020				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Sales volume (units)																	
Company																	
FAW	33,423	20,604	36,427	30,165	29,685	22,761	18,421	15,900	21,147	23,054	17,734	5,918	52,540	11,655	25,578	57,539	43,317
Dongfeng	13,502	13,241	31,357	24,798	22,372	21,388	16,281	16,432	18,703	20,112	22,368	20,064	17,285	3,962	22,970	35,974	36,389
CNHTC	15,117	13,478	24,248	17,766	15,600	16,964	12,156	11,116	11,967	12,940	18,668	20,895	13,244	8,737	20,508	25,718	25,233
SXQC	12,654	12,581	24,253	17,247	15,749	16,998	10,434	10,471	11,378	12,292	15,738	17,526	10,088	3,835	19,933	24,476	25,798
Foton	5,553	5,779	11,639	8,797	7,001	7,257	5,394	5,804	6,713	7,394	7,889	6,758	8,938	3,184	11,581	18,526	18,511
JAC	4,386	2,690	4,425	3,461	3,452	3,417	2,246	2,034	2,382	2,676	3,408	3,547	3,951	1,415	5,655	5,412	6,524
SAIC-IVECO Hongyan	6,517	3,020	5,530	6,150	5,020	5,100	4,100	4,011	3,803	4,001	5,502	5,406	4,007	1,858	5,005	9,018	10,119
Da Yun	2,489	1,880	3,123	2,270	2,389	3,775	2,212	2,218	2,727	2,850	3,122	3,286	2,053	739	2,622	3,819	3,029
CAMC	2,134	1,779	2,210	2,078	2,068	1,080	920	1,263	1,100	1,655	1,876	2,021	1,500	922	2,200	2,983	2,353
Others	2,927	2,965	5,543	6,025	4,928	4,953	3,619	4,011	3,651	4,373	5,297	6,818	3,042	1,263	3,928	7,689	7,964
Total	98,702	78,017	148,755	118,757	108,264	103,693	75,783	73,260	83,571	91,347	101,602	92,239	116,648	37,570	119,980	191,154	179,237
Change (YoY)																	
Company																	
FAW	-2%	2%	9%	13%	26%	-15%	37%	0%	17%	23%	-11%	-40%	57%	-43%	-30%	91%	46%
Dongfeng	-19%	19%	14%	9%	3%	4%	18%	19%	21%	25%	33%	-3%	28%	-70%	-27%	45%	63%
CNHTC	-18%	-4%	17%	-11%	-16%	-7%	-9%	-7%	-2%	3%	24%	43%	-12%	-35%	-15%	45%	62%
SXQC	-13%	14%	18%	-4%	-7%	-6%	-4%	2%	-4%	7%	5%	30%	-20%	-70%	-18%	42%	64%
Foton	-22%	5%	-15%	-35%	-41%	-34%	-38%	-21%	-9%	-3%	-17%	-17%	61%	-45%	0%	111%	164%
JAC	-18%	-21%	-22%	-35%	-15%	48%	-30%	-10%	-11%	7%	47%	133%	-10%	-47%	28%	56%	89%
SAIC-IVECO Hongyan	23%	0%	-17%	-11%	-28%	-18%	-18%	11%	16%	8%	57%	42%	-39%	-38%	-9%	47%	102%
Da Yun	-1%	1%	1%	2%	1%	6%	0%	-21%	1%	1%	1%	9%	-18%	-61%	-16%	68%	27%
CAMC	51%	33%	-16%	-19%	2%	-18%	-16%	-7%	-27%	-19%	-18%	-6%	-30%	-48%	0%	44%	14%
Others	-24%	-6%	14%	27%	-11%	17%	24%	60%	42%	79%	64%	30%	4%	-57%	-29%	28%	62%
Average	-10%	4%	7%	-3%	-5%	-7%	2%	2%	8%	14%	14%	12%	18%	-52%	-19%	61%	66%
Market share																	
Company																	
FAW	34%	26%	24%	25%	27%	22%	24%	22%	25%	25%	17%	6%	45%	31%	21%	30%	24%
Dongfeng	14%	17%	21%	21%	21%	21%	21%	22%	22%	22%	22%	22%	15%	11%	19%	19%	20%
CNHTC	15%	17%	16%	15%	14%	16%	16%	14%	14%	18%	23%	23%	11%	23%	17%	13%	14%
SXQC	13%	16%	16%	15%	15%	16%	14%	14%	14%	13%	15%	19%	9%	10%	17%	13%	14%
Foton	6%	7%	8%	7%	6%	7%	7%	8%	8%	8%	8%	7%	8%	8%	10%	10%	10%
JAC	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	4%	3%	4%	5%	3%	4%
SAIC-IVECO Hongyan	7%	4%	4%	5%	5%	5%	5%	5%	5%	4%	5%	6%	3%	5%	4%	5%	6%
Da Yun	3%	2%	2%	2%	2%	4%	3%	3%	3%	3%	3%	4%	2%	2%	2%	2%	2%
CAMC	2%	2%	1%	2%	2%	1%	1%	2%	2%	2%	2%	2%	1%	2%	2%	2%	1%
Others	3%	4%	4%	5%	5%	5%	5%	5%	4%	5%	5%	7%	3%	3%	3%	4%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: CNHTC is the parent co of Sinotruk. Shaanxi Automobile Group is the second largest shareholder of Shaanxi Heavy-duty Motor with 49% stake. Weichai is the largest shareholder of Shaanxi Heavy-duty Motor with 51% stake.

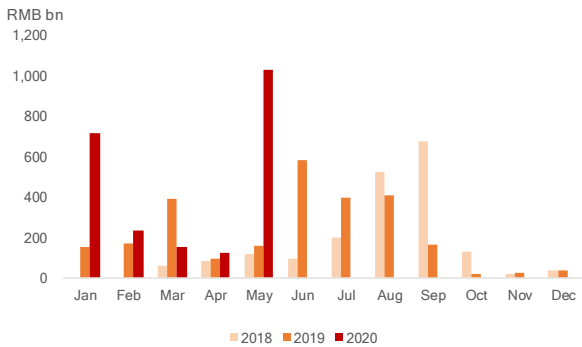
Source: Wind, CVworld, CMBIS

Figure 18: Timetable for the implementation of NES



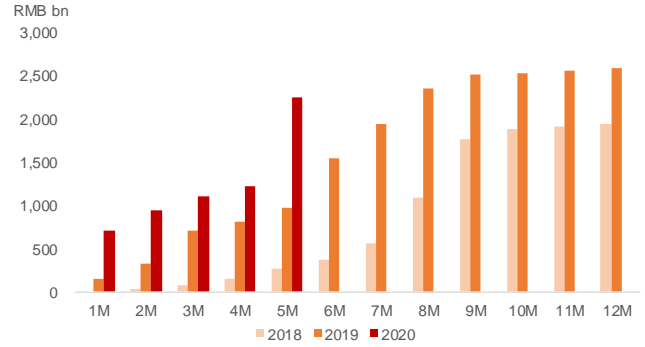
Source: Ministry of Ecology and Environmental, CMBIS

Figure 19: Local gov't special bond issue amount (monthly)



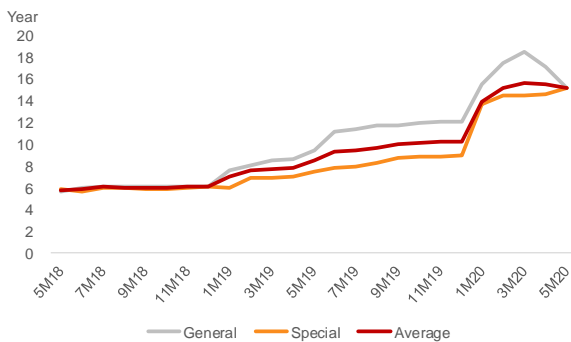
Source: Ministry of Finance, CMBIS

Figure 20: Local gov't special bond issue amount (YTD)



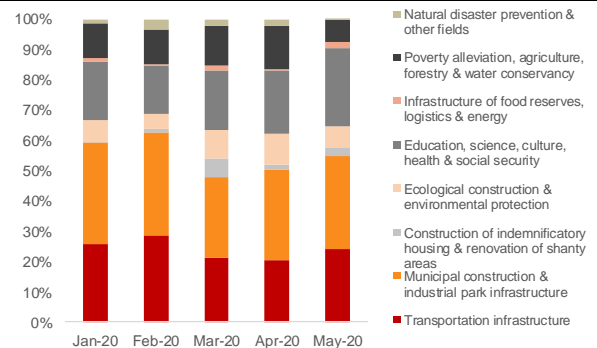
Source: Ministry of Finance, CMBIS

Figure 21: Local gov't bond average duration (YTD)



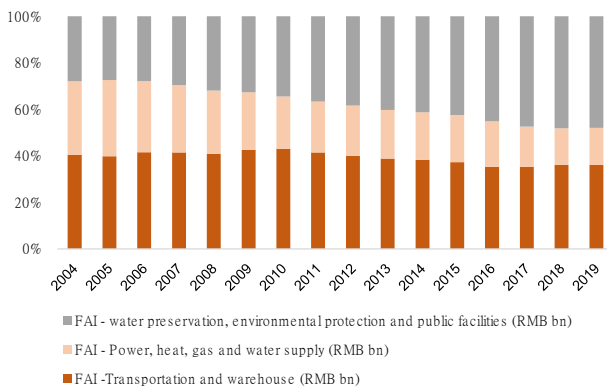
Source: Ministry of Finance, CMBIS

Figure 22: Investment targets of the new local gov't bond



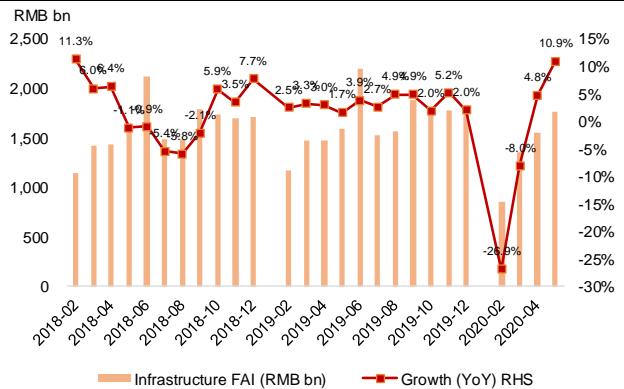
Source: Ministry of Finance, CMBIS estimates

Figure 23: Breakdown of infrastructure FAI



Source: Wind, NBS, CMBIS

Figure 24: China infrastructure FAI (monthly)



Source: Wind, NBS, CMBIS

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